

**Pirelli&C. S.p.A**  
**Conference Call FY' 09 Financial Results and 2010 Outlook**  
**10 March 2010**

Good evening, ladies and gentlemen. Thank you for attending our conference call during which my colleagues and I will present 2009 financial results and the 2010 outlook approved by the Board. When, last February, we introduced the 2009-2011 three-year plan, we started from the basic assumption that we would use the strong discontinuity of the external scenario as an opportunity to transform the Pirelli Group by focusing on 5 fundamental levels: first and foremost, competitiveness, innovation and efficiency. 2009, the first year of the plan, that just closed with great results, makes us confident about an accelerated progression towards a strong focus on our core business with sound fundamentals.

Let's now focus on slide 3: first, we strengthen our competitiveness. For Tire, we succeeded in strengthening our position in the emerging markets, characterized by growth. In 2009 the percentage incidence of European sales decreased by 3 percentage points year-on-year to 42%, due to a robust development in Latin America, that today represents 34% of our sales, +1% year-on-year and in China, where the incidence on total turnover reached 6%,+2% year-on-year. We gained market share in all the geographies, both in the consumer and the truck segments and especially so in Brazil, where we manage about one third of the market and where we gained about +1% of market share year-on-year. Such performance places Pirelli as the full-year 2009 best performer in the industry. In terms of the revenues trend, -2.6% year-on-year versus -14% industry average considering the first six players, mainly benefiting from the volume trend -5.8% year-on-year and -11% year-on-year average. At the same time, We implemented a powerful marketing/mix strategy based on a wide range of innovative Pirelli's green performance products, already compliant with the new European legislation, such as the new Cinturato and the extremely advanced winter tires. During the last five years, Pirelli improved its tire manufacturing process and successfully reduced energy consumption by 9.2% and water consumption by 12.7% and is now considering the adoption of biomaterials such as silica from rice chuff with benefits both in terms of cost and environment protection. Moreover, it's important to underline that Pirelli reached a leadership position in terms of performance, safety and eco-compatibility according to the test made at the beginning of 2010 by ANDAC, the most important and prestigious automobile association in Germany and Europe, with over 19 million subscribers, through its intense R&D activity. In a year of strict cost containment, Pirelli kept its R&D cost/revenue ratio practically unchanged, at 3.3%. Competitiveness improvement: strong efficiency through effective restructuring actions, which started already at the end of 2008, long before its peers. The first benefits were already apparent in 2009 with a significant cost reduction; I'm referring both to 200 million euros gross cost savings in the tire business and 29% fixed cost reduction year-on-year in Real Estate. 68 million at the end of 2009 versus 234 million euros in 2008; the reorganization of the corporate structure that started last September - foreseeing the shift of the operating functions directly to the "Tire and Parts" division, to streamline and speed up business processes as well as the headcount reduction of about 1/3 of the holding employees - will, already in 2010, lead to savings for about 10 million on a yearly basis. Another fundamental item of our strategy is to focus on industrial activities, tires and filters, in line with the gradual exit from businesses we no longer consider strategic. In this context, we sold our financial stake in Telecom Italia, 1.32% in 2009 and Alcatel, 5%, with a cash-in of about 250 million, which will be used to speed up the development of the tire

manufacturing capacity. In Real Estate, in line with the 2009-2011 plan, we reviewed during the capital increase we successfully concluded last summer, we continued our turnaround process that will be further detailed by Mr. Malfatto later on. I simply wanted to stress that also at the end of 2009 the pro-quota net asset value of Pirelli Real Estate was assessed by independent experts at about 1.2 billion euros, in line with 2008, while the debt net of shareholders' loans was 445 million. Net invested capital at the end of 2009 was 866 million with a market capitalization of 385 million euros. Therefore, I believe this company can offer considerable upside opportunities. It will be up to us to prove it. Last point, Pirelli's strong financial position, the least leverage in the reference industry; in 2009 we witnessed a strong cash generation I will soon comment upon.

Slide 4: we exceeded all the targets we had already raised in the third quarter 2009, more specifically, I'd like to highlight 4.9% EBIT margin includes about 80 million euros of restructuring costs, whereas the initial plan included approximately 30 million euros. Comparing apples with apples, this means we have already reached 6%. Let's review Pirelli's financial performance in the last quarter of 2009; I shall briefly comment on some of the following slides, then I'll let Mr. Gori and Mr. Malfatto get into details of each business.

I'll start discussing slide number 5, we ended the last quarter of 2009 with a strong set of results: double-digit revenue growth with Pirelli Tire as best performer also for fourth quarter 2009 with 18.7% of top line growth. Profitability rebound 8% EBIT margin before restructuring costs, the highest in the year, due to a positive trend in Tire, a 10% margin, the progressive turnaround in Pirelli Real Estate and the recovery of efficiency in both businesses. Sustained cash generation, 389 million euros of operating cash-flow in the fourth quarter of 2009, despite new investments, 50% of 2009 capex was in the fourth quarter.

Let's skip the following slide and move on to slide number 7: Pirelli closed 2009 with 22.7million euros of net results versus 347.5 million euro losses in 2008. Let's not forget that 2008 results included 263 million euros of depreciation of financial participation, 173 million euros for Telecom Italia and 136 million euros for Pirelli Real Estate depreciation, with a 3.7% Pirelli Real Estate portfolio devaluation.

On slide number 8, Pirelli closed fiscal year 2009 with a 112.6 million euro net profit coming from participation proceeds, such trend combined with the market reduction in consolidated debt lead Pirelli & Co.'s Board of Directors to propose at the next shareholders' meeting the distribution of a 1.45 euro cent dividend for each ordinary share and of 4.06 euro cent for each saving share. At March 9, market price at 0.41€, Pirelli has a 3.5% dividend yield for ordinary shares and a 9.1% dividend yield on saving shares, versus a 1.6% average if you consider three peers that pay out dividends: Michelin 1.8%, Nokian 2.1% and Bridgestone 1%.

Going to slide number 9, debt halved due to the strong cash-flow generation, 556 million euros of operating cash-flow in 2009, 12.5% of deconsolidated revenues, 389 million euros only in the fourth quarter 2009. The cash-in from the sale of Telecom Italia shares, 191 million euros, and the capital increase agreed upon by Pirelli Real Estate minority shareholders allowed us to offset financial and tax charges, 183 million euros, as well as restructuring costs, 106 million euros. Such situation, combined with a positive view of future tire demand, makes us confident about increasing resources to be allotted to production capacity, particularly in high-development geographies, such as Russia. Pirelli's

gross debt amounts to 1.8 billion. You see it in slide number 10. Debt maturity increased versus the first nine months, 74% of gross debts will mature starting from 2012, versus 59% indicated for the same period at the end of September 2009. Worth nothing is the renewal of the maturity of other borrowings that expire at the end of 2009, approximately 399 million euros and the granting of an EIB on the 100 million euro loan maturing in 2015 to finance R&D projects aimed, among other purposes, at reducing the environmental impact. Pirelli can also count on 819 million euros of committed credit lines, 81% of which maturing in 2012.

Going to the strategic guidelines for 2010, our main objective is to focus on our core business to become, within 2010, a pure tire company and achieve absolute leadership in green performance, which implies a 360-degree technology innovation, such as Next Mirs, biomaterials, technology partnerships, development of the Settimo Torinese plant, the green factory, etc.

In the Tire & Parts division, on which Mr. Gori will expand later, our objective is to grow with a differentiated approach between consumer, premium strategy and industrial selective delocalization, to further improve cost competitiveness, more efficiency in 2010 we target more than 60 million euros of efficiency... 60 million euros of efficiencies in 2010, and to accelerate investments, over 300 million euros, to increase production capacity, especially in the high-growth low-cost emerging markets. In the filter business we obtained homologations in the key markets, such as Germany and China, geographic diversification and implementation of stringent regulations limiting polluting traffic are a good omen for a double-digit growth, a breakeven in terms of EBIT and a positive cash-flow generation. For synergic businesses, like environment and industrial design, Pzero, were we think we can reach breakeven in 2010, we want to seize new business opportunities along the line of our green performance strategy and brand value enhancement. Last year Interbrand valued it at 1.5 million euros, our brand was the highest in the industry; and we want simultaneously to finance a good share of Pirelli advertising. The challenge for Pirelli Real Estate is to make the market appreciate its intrinsic value, by working on consolidating our leadership in fund management in Italy, focusing on services to increase recurrent revenues on gradually exiting Germany and Poland and on maintaining a careful financial discipline. About all of this Mr. Malfatto will elaborate later.

And then we go to the targets for 2010: we foresee a 5-8% growth in sales versus year-end 2009 reaching between 4.7-4.8 million euros. The reported EBIT margin, net of restructuring costs in Tire, in line with the 2009-2011 three-year plan, is 6.5 and 7%... between 6.5 and 7%. This means a 40-50% EBIT growth versus 2009. As I've already said, we increased capex more than what initially expected in the 2009-2011 three-year plan to timely seize growth opportunities. At the end of 2010, the net financial position, which includes 81 million euros of dividends, whose pay-out should be approved during the next AGM on April 21, should be approximately 700 million euros. Finally, some of the 2011 targets we presented last year have already been achieved. By the end of this year, we shall present a new 2011-2013 industrial plan.

So, thank you very much for your attention and I'll now leave the floor to my colleague who will illustrate 2009 results and the 2010 outlook. At the Q&A session, I will be available to answer your questions. Mr. Gori, please, the floor is yours.

Thank you, Mr. Tronchetti. And good evening to you all.

Slide15: we are satisfied with our 2009 results. We exceeded our targets, something that was almost unbelievable a year ago. 4 billion euro revenues, 200 million euros above the initial target, EBIT close to 8%, versus a target of 6.5-7%, and a debt reduction by 300 million euros, well beyond the initial target.

Next page, 16: Q4 was the best quarter of the year, with revenues growing 18.7% year-on-year, confirming Pirelli Tire as the best performer in the industry. The drivers were: our presence in high-growth geographies, 50% of our sales come from emerging countries; innovation and high-quality products, as was tested by all the major trade magazines in Europe; a fast focused and flexible team capable of gaining market share in all core geographies; also the best profitability over the year, 10% EBIT margin, supported by low raw material costs; and, finally, Q4 was also the best in terms of cash generation, with 315 million euros net operating cash-flow, on a total of nearly 400 million in 2009.

Next page, 17: more in detail, volumes went up by 15.6% with similar trends in both segments, while the price/mix was slightly negative, but we need to remember that Q4 2008 included a market price increase, +14%, in conjunction with a peak in raw materials. Moreover, the positive trend in car sales lead to an increase in OE weight, +4 points year-on-year, from 21% in Q4 2008 to 25% in Q4 2009, which, of course, is depressing the price/mix variation. Last, the exchange rate variation reflects the appreciation in the Brazilian real, while in Venezuela we follow the high inflation regime in the quarter.

Page 18: if we look at the profitability trend, we can immediately see how the improvement recorded in Q4 2009 depends on positive volume trends, nearly 31 million euros, the raw material cost reduction, 81.5 million euros, net of exchange rate variations, and cost efficiencies due to the restructuring actions, together with a high saturation of the production capacity. The trend of the other costs includes provisions for the 2009-2011 senior management long-term incentive plan for about 12 million euros. Let's not forget that the incentive scheme approved by Pirelli last year also foresees that part of the management yearly bonus be set aside in a fund and only paid if and when the three-year targets be achieved.

Next page, 19: the net financial position evolution in Q4 is characterized by a sound net cash generation, as I told you, 315 million, 396 for the full year. The cash generation benefited from the improvement of the operating performance and from continuous inventory reduction, tighter management of commercial credit. So, overall, we closed the year with 1 billion and 27 million of debt, versus a target of 1 billion and 266 before dividends.

Let's now briefly analyze the trend of each business segment, starting with the market trends; next page, 20. As you see, the year has been progressively improving, with Q4 characterized by a strong quarter-on-quarter OE volume increase, and the trend was also positive for replacement markets, with a double-digit growth, specifically in Mercosur in Latin America. Moving then to the results of the consumer business, in Q4 09 our top-line rebounded and a market profitability increase characterized Pirelli's performance in this segment. The volume growth was as high as 16.4 and was supported by, basically, all areas, specifically Latin America, the winter season in Europe, and the recovery of Original Equipment both in Europe and Mercosur.

Moving to the next page, the industrial business market trend: again, a positive Q4, even though not as positive as the consumer segment, OE still very depressed in Europe, while replacement is rebounding with a two-digit improvement in Europe and Mercosur.

Next page, 23: our positioning in emerging markets, like Mercosur, China, Middle East and Africa, allows us to post a consistent revenue growth in the quarter, +13.4%, and to gradually improve the margin up to 10%. Volumes were up 14% and we benefited from the

European sales rebound in replacement and the overall positive Latin America market trends.

Moving to slide 25: our strategic guidelines for 2010 confirm our strategic positioning in line with our business plan. And the distinctive strategic features are focused on: a strong and truly global brand that made us once more improve our positioning in the top consumer segments, a selected exposure in the emerging markets, with a focus on Latin America, where we are clearly number 1, Middle East, Africa and Asia. Our expectation for 2010 is to further improve our revenues in the industrial business, by fully exploiting the potential in those geographies. The cost of natural rubber recently peaked at over 3000 dollars per ton, back to the top rate of 2008. And given the current scenario we estimate a raw material cost headwind of approximately 200 million euros. Therefore we are exercising a stricter control by raising prices and implementing cost efficiencies, on which I shall comment upon later. Just to remind you, by the end of 2009 we announced the price increase up to 10% in the Middle East, which we are executing in this quarter, we are also executing a 4% price increase in North America and we already announced a 4% price increase in Europe starting from next April. Across the board: all products. We are also increasing production in low-cost countries; by the end of 2010 we believe we can reach our 2011 target of over 90% industrial and 70% consumer production in low-cost countries. Consistent with our growth strategy, our investments will be accelerated in 2010.

Moving to the next page, 26: the way we see the consumer market for 2010 is the following: a 5-6% growth in the emerging markets, both for replacement and OE; a recovery in the OE business within the NAFTA region; flat market in Europe, nevertheless as far as we are concerned, it should be positive because our mix is more on the side of the premium manufacturers which deeply... suffered more last year, and mature markets characterized by low single-digit growth in the replacement business all over Europe and North America. As far as our actions and growth strategy are concerned, our strategic focus in North America is increasing the replacement market share, the key word in Europe is green performance, in Latin America we shall consolidate our leadership in both OE and replacement markets. Finally, in China we shall enter the OE market this year with a focus on European premium transplants.

Moving to the next page, 27: in the industrial market after the 2009 crisis we expect to recover... to see a recovery in the market, with a double-digit growth in the OE business and a 5-7% growth in the replacement business, stronger at the beginning of the year and progressively flattening in the second half. Our goal is to consolidate our position in all areas, taking advantage of the market recovery.

Next page, 28: we have a long-lasting foothold in the Latin America region, 1 century in Argentina, 80 years in Brazil, a total of 7 plants, including one in Venezuela, we are the clear regional leader with sales worth 1.9 billion dollars, and our success story is based on a very strong and widespread dealer network, the highest brand awareness and over 11,000 committed employees.

Next page, 29: a brief comment on this page and the following page 30, highlighting the distinctive features of the green performance concept and the superiority recognized in the recent tests made by car magazines and automobile associations this year. We are showing the ability of Pirelli to match the more and more stringent requirements from the legislation and carmakers, in terms of low rolling resistance, with a performance and safety that have always characterized Pirelli products worldwide. We are also going to introduce, in the next few weeks, another green performance product, specifically in the SUV segment, named Scorpion Verde.

So, now moving directly to page 31: the actions carried out in 2009 brought about savings worth 200 million euros, approximately half of which connected to raw material cost

reduction, net of exchange rate impacts. For 2010 our target is to achieve over 60 million euros of additional gross savings, in line with our three-year plan or slightly better. We promised actually 50 million, but given the headwind on raw materials, we have to try and work to compensate for that raw material cost. Therefore, in 2010 we will definitely exploit the benefits coming from the closing of our Spanish factory at the end of 2009, the increase in production in low-cost countries, additional savings schemes through continuous efficiency actions in the raw material usage and weight, and further actions on other discretionary costs, without sacrificing, of course, R&D.

Page 32: we are going to accelerate the investment plan in 2010, over what we told you last year in February, to fuel our growth we will invest over 300 million euros in 2010 in a number of projects with the purpose of increasing production capacity, mostly in low-cost countries. Projects in Europe will range from a new fully automated green plant in Italy, replacing an old plant which has been actually out of production in December with the exception of the mixing department, to a 60% increase in car tire production in Rumania. Greenfield start-up project in Russia has been finalized and waiting for the approval of a new special economic zone. In China we plan to increase our truck and car tire capacity by 20% and 100%, respectively. In Egypt we plan a 20% increase in truck tire capacity and, finally, in Latin America we will boost a 20% truck and a 25% car tire capacity increase.

Next page, 33: the signs of the market recovery allow for a 6-8% revenue increase target with an EBIT after restructuring costs equal to at least its 2009 value.

Let's move to the filter business on page 34: Pirelli's Eco Technology performance in 2009 was negatively affected by the delay in the implementation of the environmental regulations, the overall economic recession and the start-up costs of the Rumanian site. During the year we achieved anti-particulate filters homologation in Germany and China.

Next page: given the current scenario, we opted for a conservative approach in our filter business for 2010, the implementation of adverse stringent regulations on car pollution are a good omen for a double-digit growth, a breakeven in terms of EBIT and a positive cash-flow generation.

Thank you very much. Now I'll leave the floor to Mr. Malfatto.

Thank you, Mr. Gori, and good afternoon to all of you. Before discussing the results for 2009, I would like to remind you of the main objectives that were part of the 2009-2011 business plan and comment on the progress that has been made, pointing out both the results obtained and the work in progress. I'm sure you remember that when we presented our plan to the market at the time of the capital increase, it was focused on the three main areas of action: the redefinition of the business model, the rebalancing of the capital structure, the recovery of efficiency.

Next page, please. With regard to the redefinition of our business model, I would like to remind you that the outlook of the real estate market will be penalized in the coming years by the effects of the financial crisis, thus to change our strategy in order to refocus on our sales platform with a view to increase our recurring revenues, reducing the level of our co-investments in participated funds and vehicles companies. The main actions taken in this regard include: number 1) strengthening of the senior management, which entails bringing four new managers aboard in April to cover positions of responsibility in the SGR, in the asset management, in the service sector and in the credit servicing business; number 2) the sale of the SOHO and trading portfolio, for approximately 250 million, beating the forecast of 220 million made at the time of approving the third quarter report; number 3) the sale of non-strategic equity investments, such as UPIM to group COIN which was recently finalized; number 4) restructuring of the master lease agreement between Highstreet and Karstadt creating the foundation for potential upside vis-à-vis the stake we

have on our books in the event of a positive outcome of the sale of Karstadt as part of the bankruptcy proceedings. In terms of business development, we finalized the entry of Intesa Sanpaolo in the SGR with a stake of 10%; as you are well aware, we began a merger project with Fimit SGR, which, however, did not have a positive outcome. With regard to the rebalancing of the capital structure, we have reduced the gearing from 2.4 up to 0.7 thanks, above all, to the capital increase. Then we finalized the medium-term line of 320 million euros, we reduced the capital invested in NPLs by approximately 100 million, thanks to the refinancing guaranteed by Calyon and the sale of 20% of the credit servicing to Calyon, exceeded the target for total yearly sales of 1 billion. In terms of recovery and efficiency, we consolidated savings for 68 million euros versus an initial target of 50 million euros, we reduced the number of employees from 1473 to 1097, a reduction of 376 headcounts, of which 236 in Italy and 140 abroad. We reduced the number of companies from 280 to approximately 240.

In the next slide: in 2009 we have achieved almost all the economic results given for the year in May, while we have made significant progress if we compare them to the losses registered in 2008, more than halving for example, the loss at the operating level.

Let's move to the following slide to give you details on that. 2009 results, as you can see, the net result reported a loss of 104.3 million euros compared to a loss of 195 million in 2008, this year's result has nonetheless been heavily affected by non-recurring items relating to both company restructuring and writedowns of certain investments. In fact, in 2009 operating results, which you can see on the line EBIT including income from equity participation, which is the last line in the table, shows a loss of 26.1 million euros, as you have seen in the previous slide. This is the lower end of the range announced. This result represents an improvement of 33.6 million on 2008, when the loss was 59.7 million. I would also like to point out that if we adjusted EBIT to include the interest income on our share of shareholders loans to the funds and vehicles in which we co-invest, this would appear to provide a more effective indicator of the group's performance before non-recurring items and financial and tax charges. In fact, after making this adjustment, EBIT becomes a loss of 6.6 million euros for 2009, which is not only way below the loss of 36.7 million in 2008, it is important to notice that the trend is improving for the second quarter in a row. Operating results show clear signs of reaching a point of equilibrium and of trend reversal. By quarter the evolution has been the following: -6.2 in March 2009, -9.2 in June, -8.9 in September and, as I said, -6.6 in December. As for non-recurring items, this has weighted on the results to the tune of 55.3 million, although this is some 125 million less than the 180 million posted in 2008. Looking at the two major components of this cost we see that the company restructuring cost came to 23.9 million in 2009 versus 44.2 million in 2008. As for the writedowns of our investments, co-investments in funds and vehicles companies there is a net balance of writedowns and revaluations, there is an appraisal by an independent expert... is a negative 31.4 million versus a negative 135.8 in 2008. We'll see more on these items on the following slide.

Before closing, I would like to point out that the total revenues figure is still not very meaningful in light of what it is at this point the residual portion of the consolidated investments. More interesting, rather, is the performance of services fees, which dropped by approximately 17% with respect to the prior year, largely due to the credit servicing, as per 16 million, and in part to the somewhat generalized decreased caused by shrinking markets and a drop in property sales.

Next page: we now look at the EBIT inclusive of share interest income on shareholders loans to funds and vehicles companies. As we saw earlier, we reported a loss of 6.6 million for the year; remember that the corresponding loss was 6.2 million in the first quarter of 2009, 9.2 million at the end of June and 8.9 at the end of September. As you

can see from the right-hand total column on this slide, the services platform has a positive result of 7.8 million, net of G&A costs, versus the prior year loss of 30.3 million. Turning to the result for the different sectors, starting with Italy, we can see an overall improvement of approximately 35 million on the prior year thanks to both the services platform and the vehicle companies and funds. As for Germany, we have almost reached breakeven, having brought the services platform back to profit and considerably improved the return from capital activities. Poland is also at breakeven. As for NPLs, they are showing a loss on both the capital and the credit servicing side. This loss on the credit servicing side is due to the fact that revenues are entirely success-basis according to the volume of loans collected. Lower collection therefore pushed services activities into the red. Lastly, the G&A costs have come down significantly, although the full benefits of cost cutting will only be felt in 2010.

On the next slide: in this slide you can see the key data of our co-invested portfolio by geographical area. I would point out that we have a real estate net asset value of 1.2 billion euros, recording unrealized capital gains of approximately 180 million euros, while we have a total net invested capital of approximately 1170 million euros, of which 866 million in real estate, of which the abroad exposure is for approximately 250 million euros. As you can see in the following slide, our total portfolio is equal to 16 billion euros, of which real estate is 14.4 billion euros, equally split between Italy and Germany and Poland, and the rest is NPLs. The reduction compared to last year is due to the 1 billion sale of real estate assets and NPL collection of around 320 million euros. A call in the mentioned portfolio rebalance and revaluation: the balance is negative for some 31.4 million, 16.5 of which in Italy and 14.9 in Germany. It is important to notice that we have taken writedowns on Highstreet of 12 million in the second half, bringing the total writedown to approximately 41 million.

I'll now hand over to Claudio De Conto who will comment on the capital invested and on the financial position.

Thank you, Giulio, and good evening everybody. Let's have a look at the net adjusted financial position evolution of Pirelli Real Estate, a snapshot of the bank debt situation of the investment vehicles and let's go through the cost saving actions we have taken during 2009.

If you please go to slide number 44, we can see that the net financial position, excluding shareholders loans, amounted, at the end of 2009, to about 446 million, with a decrease by 417 million compared to 2008. Such improvement is mainly attributable to the capital increase of 400 million successfully completed in July last year, but also to approximately 113 million which refer mainly to the reduction of net invested capital in the NPL business, thanks to the transaction with Calyon which guaranteed the refinancing and with the investment of Calyon which acquired 20% of the credit service company. Moreover, the strategic partnership with Intesa Sanpaolo in the fund management business, which led us to sell the 10% of our fund management company. Regarding the cash-out flow, we had about 40 million, mainly referred to the restructuring actions we have taken during the year and the leftover of the cash of the restructuring of the previous year and to around 30 million of equity injection in funds and vehicles which were already expected and forecasted in our strategic plan presented to the investors last year. It is worth recalling that, as of today, Pirelli Real Estate has committed bank lines amounting to 430 million euros, and the residual duration of such credit lines is about 25 months. In addition to that, we have an inter-company facility granted by the mother company Pirelli & Co. for 150 million euros. As a result of the reshaping of the financial structure of the company, the gearing therefore improved from a 2.4 ratio of same period of last year, to 0.67 of this year.



If we move to the following slide, regarding the financial situation of the investment funds and vehicles let me say that the overall net financial position is approximately 11 billion, of which 9.6 billion are net bank debt, refer to real estate, the rest is related to the non-performing loan business; and as far as the Pirelli Real Estate pro-quota is concerned, we have a total debt of 3 billion, of which 2.5 in the real estate business and 0.5 in the NPL. I would also remind you that all this debt is non-recourse, with the exception of 45 million. Refinancing needs of all the vehicles, also thanks to the recent agreement that we reached in Germany with the banks and the Highstreet deal with an extension of maturity up to 2014, improved significantly. Approximately 60% of the refinancing needs will be beyond 2012. The main characteristics of the pro-quota debt are an average duration of 3.4 years, an average present cost of debt of 3.8% with a spread of 158 basis points, taking into account the earlier mentioned agreement with Highstreet, refinancing such spread would increase to 175 basis points. 79% of the interest rate risk is hedged and therefore the situation is pretty stable at the moment.

If we move to the next slide, we can see, as already commented and explained by Mr. Malfatto, that the recovery efficiency plan has performed over-targeting. And we have reduced, compared to 2008, the headcounts by some 366 people, about 25% less, of which 236 in Italy and 140 between Poland and Germany. We have achieved consolidated savings of 68 million against the initial target of 50 and we will have, of course, the pull-through effect for 2010. Of these, 32 million relate to labor costs, and the remaining 36 million refer to other fixed costs, mainly consultancy, marketing, travel expenses and IT. I would like to thank you for your attention and give the floor back to Mr. Malfatto for the 2010 outlook.

Thank you, Claudio. Now let me give you some details on 2010 expectations and an outlook for 2011; but before I would like to refresh your memory about the information disclosed to the market when we presented our three-year business plan for the capital increase finalized in 2009. In such event, earnings started for 2011 in terms of EBIT including income from equity participation and income from shareholders loans and before extraordinary expenses and income, revaluations, writedowns and, obviously, interest and tax was provided. The targets for 2011 were 50 million of recurring profit from the service platform, as well as a profit of 60 million for the capital and sales activities. The figures relative to 2010 were disclosed at the time to the market. If we look at 2010 by country, in Italy we are optimizing and efficiently managing the existing portfolio. We are therefore working on valorization strategies on some assets looking at achieving the maximum result when put on sale. I'm referring specifically to the SOHO asset and the development project in our portfolio and the freeing of the net invested capital employed in such investments. The key driver for our growth in the country will be fund management, the so-called SGR; we will leverage on our leadership to pursue both internal and external growth. We are in fact in the process of participating in several auctions, both private and public, and also launching new funds with our assets. Regarding specialized services, we would like to revamp the overall offer, including value-added property management services, increase synergies between the corporate agency and the franchising network. We are also targeting being a sizeable and well-recognized company, the offer to the other fund management companies, which usually do not have an integrated solution to offer. In the NPL business we are working to return to profitability this year, after 2009 was affected by significant impairments, approximately 30 million euros on the portfolio. In Germany, also in this country, we are continuing to efficiently manage, as shown in 2009 results, the portfolio both commercial and residential, while for the residential we are actively working

to find a partner through a capital market deal. The service platform will continue to manage our own portfolio as well as third parties'. In Poland we are continuing the residential development process of major sites in Warsaw and Gdansk, while we are in advanced negotiations to sign a partnership, and therefore we see a steady disinvestment in this country.

To give more specific targets for this year, please look at the next slide. A target for total sales in the range of between 1.3-1.5 billion euros which would make it possible to: number 1) maintain the level of asset under management stable, with a view to acquiring funds under management for the same amount; number 2) reduce average co-investment participation to around 22-23%; and number 3) as part of the abovementioned target, sell at least 200 million of the assets pertaining to SOHO and trading; reach results for the service platform, therefore recurring, in the range of between 20-30 million, equal to approximately 50% of the 2011 target found in the three-year business plan. This target as well, as we will see better further on, assumes an inversion of the negative trend in revenues for services with a return to organic and external growth, bring credit servicing back in the black thanks to a collection plan that has been updated based on the impairment recalled in 2009. In terms of cost we count on a further improvement of around 25-30 million in addition to the 68 obtained in 2009. A stable net financial position thanks to reaching the sales target in the plan. Let me say that we started the turnaround process with both the services and investment division with significant losses and we have achieved in this year an equilibrium in the services division while the investment still suffers some losses. For this year we expect the services platform to continue to improve performance and the results, while investments should steadily improve the results, reaching the breakeven point or even turn slightly positive. This, therefore, will pave the way to meeting the 2010 result of 110 million target of EBIT including income from equity participation including interest from shareholders loans. Thank you. And now I'll leave the floor to Mr. Tronchetti.

Thank you, Mr. Malfatto. So, we have completed our presentation and we are pleased to answer all your queries.

#### Q&A session:

1. Ms. Monica Bosio from Intesa Sanpaolo:

*Yes. Thanks. Good evening everyone. I would have a question for Mr. Tronchetti and a couple of questions for Mr. Gori. Regarding the disposal of the non-core assets, I was wondering if it's reasonable to think of a disposal of the broadband business over the current year or the next one? And I was wondering if you can give us an update with reference to the separation of the real estate business from the group? And, this is for Mr. Tronchetti. And as for the tire business, my question is regarding the Mercosur. I was looking at the fourth quarter revenue trend and the projection on the full-year 2010. I was wondering maybe if you do not believe that these projections are too conservative. And in addition I would like to say, if it's possible, if you could find the weight of the Agro and truck revenues on the total revenues in Mercosur? Thank you.*

Thank you. So, we are in the process of analyzing different options to combine our broadband activity or to sell. So, the fact is that the company is a good company but we

need critical measures in this kind of business and we believe that within this year or first half next year we will be able to combine our company with other companies. It could be a minority stake in our hands at the beginning but the end game is that we will leave this business, which is not strategic any more. For the real estate I confirm what I mentioned in the past: so, our target is to be a pure industrial company focused on tire. Tire will be our business and tire-related activities; and we continue, and we are in the process of finalizing, the project to split and to deliver to the shareholders the real estate activity. So we are looking into different options but we confirm that within this year this kind of transactions will be finalized.

*Okay, thanks.*

About the Latin America market, in the annexes to our presentation, at page 50 and 59, you have our sales by business. The sales breakdown for consumer and industrial business in Latin America. That can help you as a basis. Now, concerning the trend in the market in 2010, as far as the consumer market we have to remember that 2009 was already a good market trend, +7% in replacement, so we forecast an additional 5-6% on a sound 2009. The OEM is a big question mark. As you know, there is a discussion in Brazil if the industry claiming +5%, the car industry, is going to be actually happening, even the government is giving up the incentives and given that this may reduce the demand of new cars. At the end we are not that worried, because we are confident that if it is not the OEM, the replacement will in any case help us sell the tires out there and eventually giving us extra capacity for exports in North America. In the industrial business, well, there is a combination of different markets: it is true that Brazil is showing a very good trend in terms of economy, it is also true that the rest of South America is not that shining. So, overall, we prefer to stay on our conservative... let me say, slightly conservative approach, because it is not only Brazil that makes the overall South American market. So I hope I answered your questions.

*Okay. And what about the weight of Agro and truck revenues on total revenues from Mercosur?*

They are around 50%, but you can easily calculate it...

*Okay.*

...because we give you the total Latin American sales, by 34%, and then the breakdown in consumer and industrial, I guess it's around 50%.

*Okay.*

Maybe a bit more.

*If I may, just the last follow-up: what kind of assumptions do you have on the raw material headwinds in terms of exchange currency rate and in terms of oil price, if it's possible to know?*

The only issue is raw material... in the raw material is really the natural rubber cost trend. Oil doesn't seem to be too nervous, while natural rubber is stabilizing at a very high level and the industry I believe, not only Pirelli, is planning and executing price increases, mostly driven by the natural rubber cost increase.

Okay thanks. Thank you very much.

2. Mr. Martino De Ambroggi from Equita:

*Yes, thank you. Good evening everybody. One more question on the real estate spin-off. I understand it's planned by year-end but I'd like to understand if it's just a matter of technical issues, so it's just to... the timetable has just to be finalized or if there are issued to be sold some eventual obstacles in the process? The first on Pirelli RE; the second is on the tire business: if I try to, very roughly, try to calculate the weighted average of volume growth based on your projections for each and every segment, it seems that your 6-8% growth is coming, roughly, 5% if not more, from volumes and the rest from price/mix. I don't know if it's possible to elaborate a bit on the composition of... on the split on this guidance? And still on the tire business if you have any updates on your initiative in Russia and particularly the potential acquisition you were looking for? Thank you.*

Thank you. So, let me, before answering your question, underline once again that the job that has been done in the real estate business is really great; I mentioned at the beginning the results of Tire, but if we look backward I have to say that the company today is very much underestimated, in terms of value, and the prospects for 2010 are to be able to achieve positive results at EBIT level and I once again want to say that the perspective will be profitable thanks to the carrying revenues... is visible... is there. So that's something important for me... it's a key statement I want to make. Then I want to confirm that there are no obstacles; we are in the process, we are more than confident that before year-end the process will be finalized and we are confident that this process will allow both companies to better exploit their value. So, Pirelli Tire activity will have the opportunity to eliminate totally the holding discount and can exploit, thanks to the financial resources, a high level of growth and the real estate is able to stand alone on its feet, we are already sure of this because of the confidence we have from the financial markets, from the... sorry, from the financial institutions and we want to achieve the confidence of the financial markets, because we have the confidence of the institutions. That's why I confirm we are in the process and we confirm that the process will be finalized by year-end. So, there are no obstacles, only technical issues, that's why it will take a few months in order to finalize the deal.

Okay. Thank you.

As far as the growth in the tire business: you're right as far as the volume growth we give, it's in the range of 4.5 to 5.5%, while the price/mix is, of course, before or excluding any exchange rate. In reality, there is a stronger exchange rate of the real, of the US dollar, so of many currencies where we sell our tires, which may have inflated a bit overall growth. So the 6-8% may be inflated by these stronger currencies, minus the effect of the Venezuelan devaluation, which is not major, it's something like 1% or 2%. So, overall the exchange rate fluctuations should boost a bit the net sales line.

*If I may just... just to be precise, the 5% growth of volumes for this year is your underlined assumption in your guidance?*

Yes.

Okay. Perfect. Thank you.

3. Mr. Alberto Villa from Intermonte:

*Hi. Good evening. I have a couple of questions on the real estate. One is related to the increase we have seen in the average spread because of the renegotiation of Highstreet. Are you expecting going forward to be in the need, because of covenants or whatsoever, apart from the expiring... to have... to renegotiate part of your credit lines? And if so, do you expect a material increase in the average spread you're going to pay? And on this matter if you, after the spin-off... might there be any risk of the need to renegotiate credit lines because of the change in control? That's my first question. And the second one is on the outlook for the revenues of the services activities? It was pretty impressive the decline in the property, for example, in 2009. I would be interested in understanding how you see it possible an improvement in revenues of the services business while you are delivering very well on the cost reduction side? Thank you.*

Mr. De Conto will answer the question. I want to underline one thing: that when I confirm that the project of spin-off will be finalized within this year that means that we have the support of the financial institutions, that means that our industrial plan that has been shortly presented to you for 2010 has been appreciated by the financial institutions and they are ready to support us. That means that the waiver and the confidence that the company can stand on its own feet is already in. So, no problem on that side. Then I'll leave for the details Mr. De Conto. I'll leave the floor to Mr. De Conto.

Answering your first question, I think the Highstreet impact is quite unique, given the situation and the size of the transaction. If you take that into consideration, I would not expect to see other strong leaks as the one we have seen in the spread, for any other transaction that we have to refinance in the foreseeable future. Of course, what is happening is that certainly spreads are increasing slightly everywhere, but you also have to take into consideration that, considering the hedging strategy that we have in place, which is based on both a fixed interest rate but also on a cap rate, the situation of the interest rates is also supporting, and will keep supporting, by giving back the fair value disadvantage that we've been booking to our accounts for the interest rate risk in the last two years. And as a further comment on what Mr. Tronchetti has been saying before, of course, at Pirelli Real Estate level we are confronting, on a daily basis, with our financial institutions and checking what the impact of this spin-off would be and if the statement of the Chairman has been such is because we are receiving feedback at all levels that the transaction is feasible and that we do have the support of the financial institutions.

*Thank you.*

I will reply... this is Giulio Malfatto speaking. I will reply to the question on the revenues and growth, potential growth, of the service platform. Of course, you have noticed a 17% drop in revenues in 2009 versus 2008 and this is mainly due to the sale of 1 billion of assets which has not been replaced this year; our target is for 2010 to have a new

acquisition of funds under management of 1 billion euros. This will be even pushing revenues for the agency business and for the property management. The 1 billion should be an achievable target, because we designed in the last quarter of 2009 a new fund, the so-called Anastasia, which is right now under placement and we hope it will be operating by the end of June. Then we have signed a contract with another group, for the asset management of a portfolio of 500 million euros and we hope that this portfolio will be transformed in a fund, and that... in such a case we will have even the mandate for the property management. So I think that our target, which is new funds under management of 1 billion in 2009, 2 billion in 2010... sorry... 1 billion in 2010 and 2 billion in 2011, is something achievable.

*Can you... can you give us an idea of what the size of the Anastasia fund will be?*

The Anastasia fund is a core fund, with 5 buildings and has a very stabilized return with a target IRR of 9% and a dividend yield of 6.5% and our target is to place this fund to institutional investors, mainly pension funds or, let's say, insurances.

*Okay. Thank you.*

Sorry, we didn't answer one question about tires, about Russia, where we are. So, we are on our way to start building the factory in Samara, in Togliattigrad; this process is on its way, we wait for the so-called special zone authorization, which we expect will be given within the next three months, so our project to build first a truck tire factory and then a car tire factory we expect that we can start building the factory before year-end. So that is the picture we have today.

4. Ms. Laura Pennino from Banca Leonardo:

*Good evening to everybody. I just have two questions: one is regarding tires and in particular on the debt. Can you give us an indication of how much of the net working capital management for the debt is coming from inventories and how much is instead from management of commercial debts? And if inventories at the moment are sustainable or if you are seeing that they will increase next year? And another question is regarding raw materials: can you just give a sensitivity on a possible further 100 dollar per ton increase in the price... in the rubber price, what would be the further impact on your accounts? Thank you.*

Yes. Gori speaking. About the debt: it mainly comes from inventories and receivables... the improvement. Definitely not from the tables. If that's the question. And as far as we can sustain this working capital level, there should be a slight worsening during 2010 for a couple of reasons, because we start at a low level of inventories, of course, and because by increasing sales maintaining the same rotation of receivables, we should also see a slight increase in receivables, but it's not going to be major. It's going to be less than proportional versus the sales increase. Because we want to maintain a kind of tight control over receivables. As far as raw materials are concerned, we still have a 3000 dollars per

ton forecast on natural rubber, because Q1 is at the end lower than that value, in these days we are purchasing natural rubber at something like 3.1-3.2... 3100-3200 dollars per ton, the overall consensus is that the price will slow down, no one knows how much, maybe only 100 or 200 dollars during summertime, because that's the usual trend in normal times at least. So I think that the average of 3000 dollars per ton flat over the year is, I don't want to say the worst case, but definitely it's in-between a base and the worst case.

*Okay. And so you do not have a sensitivity on how much a further increase would impact?*

Yes, of course, we have it, it's roughly 15 million dollars every 100 dollars of price increase. But that... I mean, what is important is that, and this seems to be happening, that the industry is reacting with several announcements of price increases throughout the world from more competitors.

*Okay. Okay. Thank you.*

So, one comment about raw materials. At least for the experience one can have after decades in the tire business, when the raw material is high the industry reacts quite well and this time, I have to say, the industry reacted better than ever, improving the prices; and so I believe that if the price of raw materials increases it means that there will be more volumes. Today there is a critical situation on the natural rubber just because of the production of natural rubber was reduced last year because there was an expectation of a longer crisis. So the capacity will improve in the next few months and if the prices will remain so high it means that the volumes will remain very high and so we expect an effect that can be offset by actions and the market is ready to accept these actions if it's a sound market.

*Okay. Thank you.*

5. Mr. Michele Baldelli from Exane BNP Paribas:

*Good evening to everybody. I just have a quick question about the price increase, because I made a rough calculation on the weighted average price increase for you and at the group level for the tire division. You should have a price increase of roughly 4%. It is based on your announced price increases. So is it coherent? Is it something that is in your guidance, the +4% in price and therefore a negative mix? Or is it something different the price increase you are projecting for 2010 for the tire division? Thanks.*

No, no, it's in line with our guidance. You also have to consider that the US Dollar appreciation and the Real appreciation are on top of our price increases, so there will be... they definitely support the price increase, in a way.

*Okay. So...*

Price and mix... and mix being included. However you have to consider that 09 was helped by the lower OE sales and higher replacement sales. This year product/mix keeps being positive, channel/mix will not be positive, because OE sales will be proportionally higher than replacement sales.

*Yes. So I have a further question. Because, assuming a 4% price increase on average for the group, the impact on profitability is not low. And assuming also an increase in volumes I come to roughly 200 million of positive contribution from price and volumes on profitability, while raw materials is 200 million but you also have a gain of other 60 million for other efficiencies, as you define them. So you should gain something like 60 million in terms of profitability, if these assumptions are right. Is there something more? Or are you a little bit conservative on the guidance?*

No, the other issue you have to plug in your system is inflation, which is not really relevant in Europe, or in the US but in the markets in which we operate, like Latin America, Middle East, Africa, China, is a bit more relevant and it is a negative issue... it is a negative driver in your calculations. When we speak about efficiencies, we speak about the positive ones, the effort from the management to cut costs, before inflation.

*Okay. Thank you.*

6. Mr. Giuseppe Puglisi from Intermonte:

*Good evening to everybody. I have three questions. My first question regards your market share: given your strong market share gain in Q4 and in general in 2009, do you see there room to decrease the gap in terms of pricing between you and Michelin and Continental in the near future? My second question regards the utilization rate: I would like to know what is the utilization rate actually and what will be. What you expect for 2010 and what will be the total amount in terms of capacity increase after your capex plan that you announced today? And the last question regards winter tires: I would like to know what is the weight on total revenues in Q4 and if you have any indication of year-on-year growth? Thank you.*

So, starting with the first question, yes, the price gap versus Michelin, I wouldn't quote Continental, is definitely reducing year-on-year. In all segments. Where this price gap exists. Mainly Europe and North America. There is no such price gap in the emerging countries. As far as the utilization rate, in this period of the year it's pretty high. Definitely. I have to remind you that we did shut down two factories in December, one in Spain and one in Italy, the old Settimo, while we are building the new Italian factory, so we are clearly utilizing maximum capacity and over the year with the investments already planned and the investments also made in Q4 of 2009, that were higher than 100 million euros, we are going to increase capacity progressively over the year. But the utilization rate now is pretty high. At least in our company. The capacity increase that we cover with those 300 million euros will be at the end of the period, that is by the end of 2011, something like 20% overall, average truck and car tires. Finally, the question about winter tires. I don't have the answer for Q4, I have the answer for the full year. Full year is around 10% of the consumer segment. Our winter tire sales. Q4 I don't know, maybe 25... 20%, clearly it's much higher than the 10% average. And the increase year-on-year in 2010 I will tell you at the end of the winter season, now it's too early.

Yes.



But stocks are lower. The good news is that tire dealer stocks in Europe for winter tires are pretty low.

Okay. Thank you.

7. Mr. Martino De Ambroggi from Equita:

*Yes, thank you. Sorry to come back to the top line split, because I don't want to be bullish at all cost, but if we sum up the 5% volume growth, the average 4% price increase, I see it quite difficult... there will be a negative currency/mix effect and so not talking about margins and all the other variables, but the top-line guidance seems to be quite conservative, if you could just elaborate a bit more on this? And on the tire business, just a very quick question on the tax rate: the 38% we saw this year can be considered a recurring or normalized level? And a Pirelli Real Estate question on the divestitures of SGR and credit servicing if we have to expect further divestitures this year or going forward? Thank you.*

I'll try to answer to your questions. Gori speaking. 4% price increase on a full-year basis, but we are actually increasing prices from Q2, so you can plug in a 3% year-on-year. And then there's the upside of the exchange rate but we cannot give you a guidance based on the exchange rate. Especially when the exchange rate that is influencing our top line is nervous, as real, Turkish lira, and so on. So, we give you a top-line guidance before fluctuations of the exchange rates. Then the second question on the tax rate: I would say on the current tax rate that it's difficult to change or give you a guidance on the tax rate, so I would not... we'll try, of course, to optimize but it really depends on each market results every year. Then I'll pass the word to Mr. Malfatto.

Yes.

Just one comment before leaving the floor to Mr. Malfatto. If you look at our guidance for 2010 for the tire activity, in our press release we underlined that the EBIT margin tendentially is in line with 2009. So I think that is a strong statement, taking into account that there are the raw materials, that there are the currencies, that for the time being are moving to the right direction but no one can bet on the currencies. So, we believe in volume increase and to keep profitability. These are the two, let's say, major commitments that we are making in front of the market. Then we have to take into account volatility of currencies and all the other elements that cannot be, let's say, in our hands today, but we strongly believe that thanks to our actions on costs and actions on margins and on mix, we can improve... we can keep profitability improving in a quite consistent manner... the volumes. Then you can combine the different elements and create a model. So, within this model the different variances will affect the result. All we can do we will do in order to beat the targets. So, this is the commitment we make.

Giulio Malfatto speaking. As far as the SGR increased services are concerned, we haven't considered in our 2010 budget any sales... any quotas.

Okay. Thank you.

8. Ms. Valentina Romitelli from UBS Milano:

*Thank you. Can I ask if there are expectations of major restructuring charges in 2010? And what do you expect to be the impact on net debt of the whole restructuring from this year? And also if there is any tail coming from last year? Thank you.*

All in all, we put a target of 700 million euros net debt year-end 2010. So, this is the answer to your second question. Your first question is about the effects of the restructuring. So, we do not expect to have, let's say, a high level of restructuring. We will be in line, let's say, with the guidance we gave in the three-year plan. So, there will be no specific increase in restructuring costs. So, I think this is all. Perhaps I didn't answer the... one of your questions that was linked to the cash-out of the restructuring of last year: yes, it's included in the target of debt that we have given and the value is 74 million.

*Thanks.*

Thank you.

So, I want to thank you very much... all of you, and have a good evening.

Ladies and gentlemen, the conference is over. Thank you for calling Pirelli.